

State of California
BOARD OF EQUALIZATION

SALES AND USE TAX REGULATIONS

Regulation 1698. RECORDS.

Reference: Sections 7053, 7054, Revenue and Taxation Code.

(a) GENERAL. Every seller, retailer, and person storing, using or otherwise consuming in this state tangible personal property purchased from a retailer, and every lessor and lessee of tangible personal property for use in this state, shall keep adequate and complete records showing:

(1) Gross receipts from sales or rental payments from leases of tangible personal property (including any services that are a part of the sale or lease) made within California irrespective of whether the seller or lessor regards the receipts as taxable or nontaxable.

(2) All deductions allowed by law and claimed in filing returns.

(3) Total purchase price of all tangible personal property purchased for sale or consumption or lease in California.

These records must include the normal books of account ordinarily maintained by the average prudent businessman engaged in the activity in question, together with all bills, receipts, invoices, cash register tapes, or other documents of original entry supporting the entries in the books of account as well as all schedules or working papers used in connection with the preparation of tax returns.

Those persons who either (1) have a system that includes the ability to produce records on microfilm or microfiche directly on-line from the computer or off-line from magnetic tape and/or (2) have records photographed onto microfilm or microfiche from original documents or "hard copy" printouts, and who want to keep their books and records on microfilm or microfiche, must meet the requirements set forth in subparagraph (c) below. Microfilm or microfiche records are not a substitute for the machine-readable records, e.g., magnetic tape or magnetic disks, required to be retained in (b) below.

(b) AUTOMATIC DATA PROCESSING RECORDS. An Automatic Data Processing (ADP) tax accounting system must have built into its program a method of producing visible and legible records which will provide the necessary information for verification of tax liability.

(1) **RECORDED OR RECONSTRUCTIBLE DATA.** ADP records must provide an opportunity to trace any transaction back to the original source or forward to a final total. If detail printouts are not made of transactions at the time they are processed, then the system must have the ability to reconstruct these transactions.

All machine-readable records must be retained in a retrievable format that provides the information necessary to determine the correct tax liability.

(2) **GENERAL AND SUBSIDIARY BOOKS OF ACCOUNT.** A general ledger, with source references, will be written out to coincide with financial reports for tax reporting periods. In cases where subsidiary ledgers are used to support the general ledger accounts, the subsidiary ledgers should also be written out periodically. For purposes of this regulation, the term "written out" includes microfilm and microfiche reproductions meeting the requirements of subparagraph (c) below.

(3) **SUPPORTING DOCUMENTS AND AUDIT TRAIL.** The audit trail should be designed so that the details underlying the summary accounting data may be identified and made available to the board upon request. The system should be so designed that supporting documents, such as sales invoices, purchase invoices, and credit memoranda or microfilm and microfiche copies thereof meeting the requirements of (c) below are readily available.

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(4) PROGRAM DOCUMENTATION. A description of the ADP portion of the accounting system must be available. The statements and illustrations as to the scope of operations must be sufficiently detailed to indicate, (A) the application being performed, (B) the procedures employed in each application (which, for example, might be supported by flow charts, block diagrams or other satisfactory description of the input or output procedures), and (C) the controls used to insure accurate and reliable processing. Important changes, together with their effective dates, must be noted in order to preserve an accurate chronological record.

(c) MICROFILM AND MICROFICHE RECORDS. Microfilm and microfiche reproductions of general books of account, such as journals, voucher registers and ledgers, and of supporting records of details, such as sales invoices, purchase invoices, and credit memoranda, will be considered records for purposes of this regulation providing the following conditions are met:

1. The procedures governing the establishment of a microfilm system and the individuals who are responsible for maintaining and operating it must be set forth in writing;
2. Procedures must be established with appropriate documentation so the original document can be followed through the system;
3. Internal procedures for inspection and quality assurance must be established;
4. Procedures must be established for the effective identification, processing, storage, and preservation of microfilm, making it readily available for as long as the contents may become material in the administration of the Sales and Use Tax Law;
5. When displayed on a microfilm reader (viewer) or reproduced on paper, the material must exhibit a high degree of legibility and readability. For this purpose, legibility is defined as the quality of a letter or numeral that enables the observer to identify it positively and quickly to the exclusion of all other letters or numerals. Readability is defined as the quality of a group of letters or numerals being recognizable as words or complete numbers;
6. A detailed index of all microfilmed data must be maintained and arranged in a manner that permits the immediate location of any particular record;
7. Upon request by the board or its authorized representatives, a reader/printer in good working order must be made available at the examination site for reading, locating, and reproducing any record maintained on microfilm; and
8. If any part of the books and records are maintained in any machine-readable data medium prior to microfilming, the provisions in subdivision (b) above must be met.

(d) RECORDS RETENTION. All records pertaining to transactions involving sales or use tax liability must be preserved for a period of not less than four years unless the State Board of Equalization authorizes in writing their destruction within a lesser period.

(e) EXAMINATION OF RECORDS. All of the above-described records must be made available for examination on request by the board or its authorized representatives.

(f) FAILURE TO MAINTAIN RECORDS. Failure to maintain and keep complete and accurate records will be considered evidence of negligence or intent to evade the tax and may result in penalties or other appropriate administrative action.

History: Effective July 1, 1939.

Adopted as of January 1, 1945, as a restatement of previous rulings.

Amended and renumbered January 6, 1970, effective February 7, 1970.

Amended June 2, 1988, effective August 24, 1988. In subdivision (a) and (c), added provisions that provide that books and records may be maintained on microfilm or microfiche under certain conditions.

Regulations are issued by the State Board of Equalization to implement, interpret or make specific provisions of the California Sales and Use Tax Law and to aid in the administration and enforcement of that law. If you are in doubt about how the Sales and Use Tax Law applies to your specific activity or transaction, you should write the nearest State Board of Equalization office. Requests for advice regarding a specific activity or transaction should be in writing and should fully describe the facts and circumstances of the activity or transaction.